

Germany

Germany	2004				
	The tax/benefit position of single persons				
	Wage level (per cent of APW)	67	100	167	67
	Number of children	none	none	none	2
1. Gross wage earnings		22725	34088	56813	22725
2. Standard tax allowances					
Basic allowance					
Married or head of family		0	0	0	1308
Dependent children		0	0	0	0
Deduction for social security contributions and income taxes		2001	2001	2001	2001
Work-related expenses		920	920	920	920
Other		36	36	36	36
	Total	2957	2957	2957	4265
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		19768	31131	53856	18460
5. Central government income tax liability (exclusive of tax credits)		2993	6687	16236	2478
6. Tax credits					
Basic credit					
Married or head of family					
Children		0	0	0	3696
Other					
	Total	0	0	0	3696
7. Central government income tax finally paid (5-6)		2993	6687	16236	-1218
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		4738	7107	10671	4738
Taxable income					
	Total	4738	7107	10671	4738
10. Total payments to general government (7 + 8 + 9)		7731	13794	26908	3520
11. Cash transfers from general government					
For head of family					
For two children					
	Total	0	0	0	0
12. Take-home pay (1-10+11)		14994	20294	29905	19205
13. Employers' compulsory social security contributions		4738	7107	10671	4738
14. Average rates					
Income tax		13.2%	19.6%	28.6%	-5.4%
Employees' social security contributions		20.9%	20.9%	18.8%	20.9%
Total payments less cash transfers		34.0%	40.5%	47.4%	15.5%
Total tax wedge including employer's social security contributions		45.4%	50.7%	55.7%	30.1%
15. Marginal rates					
Total payments less cash transfers: Principal earner		50.2%	56.5%	60.5%	47.9%
Total payments less cash transfers: Spouse		n.a.	n.a.	n.a.	n.a.
Total tax wedge: Principal earner		58.8%	64.0%	65.0%	56.9%
Total tax wedge: Spouse		n.a.	n.a.	n.a.	n.a.
Memorandum item: Non-wastable tax credit					
tax expenditure component		0	0	0	2478
cash transfer component		0	0	0	1218

Germany	2004				
	The tax/benefit position of married couples				
	Wage level (per cent of APW)	100-0	100-33	100-67	100-33
	Number of children	2	2	2	none
1. Gross wage earnings		34088	45451	56813	45451
2. Standard tax allowances					
Basic allowance					
Married or head of family					
Dependent children		0	0	0	0
Deduction for social security contributions and income taxes		4684	4002	4002	4002
Work-related expenses		920	1840	1840	1840
Other		72	72	72	72
	Total	5676	5914	5914	5914
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		28412	39537	50899	39537
5. Central government income tax liability (exclusive of tax credits)		2748	5810	9312	5986
6. Tax credits					
Basic credit					
Married or head of family					
Children		3696	3696	3696	0
Other					
	Total	3696	3696	3696	0
7. Central government income tax finally paid (5-6)		-948	2114	5616	5986
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		7107	9476	11846	9476
Taxable income					
	Total	7107	9476	11846	9476
10. Total payments to general government (7 + 8 + 9)		6159	11591	17462	15463
11. Cash transfers from general government					
For head of family					
For two children					
	Total	0	0	0	0
12. Take-home pay (1-10+11)		27929	33860	39352	29988
13. Employers' compulsory social security contributions		7107	9476	11846	9476
14. Average rates					
Income tax		-2.8%	4.7%	9.9%	13.2%
Employees' social security contributions		20.9%	20.9%	20.9%	20.9%
Total payments less cash transfers		18.1%	25.5%	30.7%	34.0%
Total tax wedge including employer's social security contributions		32.2%	38.4%	42.7%	45.4%
15. Marginal rates					
Total payments less cash transfers: Principal earner		45.7%	53.6%	53.2%	50.2%
Total payments less cash transfers: Spouse		47.8%	53.6%	53.2%	50.2%
Total tax wedge: Principal earner		55.1%	61.6%	61.3%	58.8%
Total tax wedge: Spouse		56.8%	61.6%	61.3%	58.8%
Memorandum item: Non-wastable tax credit					
tax expenditure component		2748	3696	3696	0
cash transfer component		948	0	0	0

The national currency is the euro (EUR). In 2004, EUR 0.8103 was equal to USD 1 (average of eleven months daily exchange rates). The Average Production Worker earned EUR 34 088 (Secretariat estimate).

1. Personal income tax systems

1.1. Central/federal government income taxes

1.11. Tax unit

Spouses are normally assessed jointly. They have, however, the option of being separately assessed. The income of dependent children is not assessable with that of the parents. The calculations in this Report assume joint taxation.

1.12. Tax allowances and tax credits

1.121. Standard reliefs and work-related expenses

- *Basic reliefs:* None.
- *Standard marital status reliefs:* In the case of joint assessment, specific allowances are doubled. Income tax according to the schedule is computed by the income splitting method.
- *Relief(s) for children:* Tax credit of EUR 1 848 for the first, the second and the third child, EUR 2 148 for the fourth and subsequent children. In cases where the value of the tax credit is less than the relief from the tax allowances (EUR 1 824 for the subsistence of a child and additionally EUR 1 080 for minding and education or training needs. For jointly assessed married couples the amount is doubled. The tax allowances are used instead to compute the income tax in the tax assessment.
- *Relief for lone parents:* Allowance of EUR 1 308 (household allowance) for taxpayers who live alone with at least one child for whom they receive tax allowances or a tax credit.
- *Reliefs for social security contributions and life insurance contributions:* Social security contributions and other expenses incurred in provision for the future (*e.g.* life insurance), are deductible up to specific ceilings:
 - ❖ The calculation of the former relief proceeds in three steps. First, EUR 3 068/6 136 (singles/couples) are deductible. These amounts are, however, lowered by 16 per cent of gross wage (serving as a proxy for employers' social security contributions). This provision is meant as a partial compensation for the self-employed, who do not receive tax-free employers' contributions to social security. Second, the remaining expenses are deductible up to EUR 1 334/2 668 (singles/couples). Third, half of the remaining expenses are deductible up to EUR 667/1 334 (singles/couples).
- *Work-related expenses:* EUR 920 lump-sum allowance per gainfully-employed person.
- *Special expenses:* Lump sum allowance (EUR 36/72 (singles/couples)) for special expenses, *e.g.* for tax accountancy or disbursed church taxes. When the taxpayer proves that his expenses are higher, they are fully deductible.

1.122. Main non-standard tax reliefs applicable to an APW

- *Interest on qualifying loans:* Interest on housing loans is fully deductible in the case of leased dwellings.
- *Contributions to pensions, life insurance, superannuation schemes:* On application to the tax office expenses are deductible up to specific ceilings.
- *Medical expenses:* Partially deductible insofar as not covered by insurance.
- *Other:* On application to the tax office work-related expenses are fully deductible (no ceiling).

1.13. Tax schedule

The German tax schedule is formula-based.

The calculations are based on a down to the next full EUR rounded amount of taxable income:

- X is the taxable income.
- T is the income tax liability.
- In addition the following definition is used in the income tax liability formulae:

$$Y = \frac{X - 7\,664}{10\,000} \quad Z = \frac{X - 12\,739}{10\,000}$$

The income tax liability (amounts in EUR) is calculated as follows:

1. $T = 0$ for $X \leq 7\,664$.
2. $T = (793.10 Y + 1\,600) Y$ for $7\,665 \leq X \leq 12\,739$.
3. $T = (265.78 Z + 2\,405) Z + 1\,016$ for $12\,740 \leq X \leq 52\,151$.
4. $T = 0.48 X - 8\,845$ for $52\,152 \leq X$.

These formulae are used directly to calculate the income tax of single individuals.

The income tax liability for spouses who are assessed jointly is computed as follows: the formula income tax is calculated with respect to one-half of the joint taxable income. The resulting amount is doubled to arrive at the income tax liability of the spouses (splitting method).

1.14. Solidarity surcharge

The solidarity surcharge is levied at 5.5 per cent of the income tax liability subject to an exemption limit of EUR 972/1 944 (singles/couples). Once the income tax liability exceeds the exemption limit, the solidarity surcharge is phased in at a higher rate of 20 per cent of the difference between the income tax liability and the exemption limit till such time that it equals 5.5 per cent of the total liability.

1.2. State and local income taxes

None.

2. Compulsory social security contributions to schemes operated within the government sector

2.1. Employee' contributions

Employees pay full social security contributions if their annual earnings are greater than EUR 9 600. On earnings up to EUR 4 800, no contributions are made and the contributions are fully phased in between EUR 4 800 and EUR 9 600.

2.11. Pensions

9.75 per cent of gross wage earnings, or not more than 9.75 per cent of the insurable ceiling of EUR 61 800.

2.12. Sickness

On average 7.0 per cent (estimate) of gross wage earnings, or not more than 7.2 per cent of the insurable ceiling of EUR 41 856.

2.13. Unemployment

3.25 per cent of gross wage earnings, or not more than 3.25 per cent of the insurable ceiling of EUR 61 800.

2.14. Care

0.85 per cent of gross wage earnings, or not more than 0.85 per cent of the insurable ceiling of EUR 41 856.

2.15. Work injury

Employer only.

2.16. Family allowances

None.

2.17. Others

None.

2.2. Employers' contributions

Where the employees annual earnings are no more than EUR 4 800, employers make a special payment equal to 25% of the gross wage (23% as a social security contribution and 2% as a special tax). On annual earnings in excess of EUR 4 800, the employers contributions are determined on the basis of the rates described for employees in Section 2.1.

2.21.-2.24. Pensions, sickness, unemployment, care

As a rule the employer pays the same amount as the employee (see Section 2.1).

2.25. Work injury

The contributions to work injury insurance are solely paid by the employer. They are based on employees' earnings and on the danger classes in which individual enterprises are classified according to the incidence of risk. These amounts are not taxable to the employee. As it is not possible to identify a representative contribution rate, these amounts are not considered in this Report.

2.26. Family allowances

None.

2.27. Others

None.

3. Universal cash transfers

3.1. Transfers related to marital status

None.

3.2. Transfers for dependent children

None.

4. Main changes in tax/benefit systems since 1997

In 1997 the tax credit for the first and second children was raised to EUR 1 350 and the child allowance increased to EUR 3 534. In 1999 the tax credit for the first and second children was raised further to EUR 1 534. In 2000 the tax credit for the first and second children was raised to EUR 1 657 and the child allowance increased to EUR 5 080. In 2002 the tax credit for the first, second and third children was raised to EUR 1 848, for the fourth and subsequent children to EUR 2 148 and the child allowance increased to EUR 5 808.

In 2004 the tax rate was reduced and the formula for calculation of income tax was changed. The relief for lone parents was reduced to EUR 1 308, the lump sum allowance for work related expenses was reduced to EUR 920.

5. Memorandum items

5.1. Average gross annual earnings calculation

- Source of calculation: Federal Statistical Office.
- Calculated on the basis of weekly wages.
- Calculated on the basis of rates of pay per hour.
- Excluding sickness and unemployment, including normal overtime and bonuses.
- Area: West Germany.

5.2. Employer's contributions to private pension, etc. schemes

No information available, though such schemes do exist.

2004 Parameter values

APW earnings	Ave_earn	34 088	Secretariat estimate	
Tax allowances	Child_al	5 808		
Lone Parents	Lone_al	1 308		
Work related	Work_rel_al	920		
SSC allowance	SSC_dn	3 068		
	SSC_dn_rt	0.16		
	SSC_dn_lim	1 334		
	SSC_dn_lump_rt	0.2		
Allow. for special expenses	SE_al	36		
Church tax rate	Ch_tax_rt	0		
Tax formula	Tax_rate2	0.45		
	Tax_thrsh1	7 664		
	Tax_thrsh2	12 739		
	Tax_thrsh3	52 152		
Top Rate Tax Reduction	Reduction	8 845		
Tax Equation Rates				
tax_eqn_rates	Squared	Single	Constant	
Z	265.78	2 405	1 016	
Y	793.1	1 600	0	
income tax rate stage	tax_first_stage	7 664		
	tax_second_stage	12 739		
	tax_third_stage	52 151		
Solidarity Surcharge	surcharge	0.055		
Solidarity Exemption Limit	surcharge_limit	972		
Alternative Surcharge Rate	surcharge_alt	0.2		
Child credit	Ch_cred	1 848		
Social security contributions	Pension_rate	0.0975		
	ceiling	Pension_ceil	61 800	
Sickness	Sick_rate	0.07		
	ceiling	Sick_ceil	41 856	
Unemployment	Unemp_rate	0.0325		
	ceiling	Unemp_ceil	61 800	
Care	Care_rate	0.0085		
	ceiling	Care_ceil	41 856	
SSC Floor	SSC_floor	9 600		
Intermediate SSC Ceiling	SSC_floor1	4 800		
Alternative employer rate	SSC_empr_alt	0.25		

2004 Tax equations

The equations for the German system in 2004 are mostly calculated on a family basis.

The standard functions which are used in the equations are described in the technical note about tax equations. Under German tax law the tax formula is calculated using a value of `tax_inc` rounded down to a multiple of € 36 and some of the components of the formula are rounded down to a multiple of € 1 000. Rounding is not shown in the equations below. The function `acttax` carry out a rounded calculation for the tables but the unrounded version `purtax` is used in calculating the marginal rates.

For a taxpayer with children, either the child allowance is given in the tax calculation or the cash transfer is given if this is more beneficial. In practice, therefore, it is necessary to make two calculations – with and without the child allowance. Nevertheless, the calculation of solidarity surcharge is always based on the calculation which does assume that the child tax allowance is given.

Variable names are defined in the table of parameters above, within the equations table, or are the standard variables “married” and “children”. A reference to a variable with the affix “_total” indicates the sum of the relevant variable values for the principal and spouse. And the affixes “_princ” and “_spouse” indicate the value for the principal and spouse, respectively. Equations for a single person are as shown for the principal, with “_spouse” values taken as 0. SSC and SSC_empr are separately calculated for principal and spouse and then added up.

Line in country table and intermediate steps	Variable name	Range	Equation
1. Earnings	<code>earn</code>		
Quotient for tax calculation	<code>quotient</code>	J	1+Married
2. Allowances:			
Children	<code>children_al</code>	J	Children*Child_al
Lone parent	<code>lone_allce</code>	J	Lone_al*(Children>0)*(Married=0)
Soc sec contributions	<code>SSC_al</code>	J	SSC_Allowance(earn; SSC; quotient; SSC_dn; SSC_dn_rt; SSC_dn_lim; SSC_dn_lump_rt) – see description of function at the bottom of the table
Work related	<code>work_al</code>	J	work_rel_al + Min (earn_spouse, work_rel_al)
Allow. for special expenses	<code>SE_al</code>	J	SE_al*quotient
Total	<code>tax_al</code>	J	children_al+SSC_al+work_al+ lone_allce
3. Credits in taxable income	<code>taxbl_cr</code>	J	0
4. CG taxable income	<code>tax_inc</code>	J	earn-tax_al
5. CG tax before credits			
adjusted taxable income	<code>adj</code>	J	tax_inc/quotient
formula based tax schedule	<code>tax_formula</code>	J	purtax(adj;Tax_rate2;Reduction;Tax_thrsh1;Tax_thrsh2;Tax_thrsh3;tax_eqn_rates;tax_first_stage; tax_second_stage; tax_third_stage) – see description of function at the bottom of the table
Adjust for the quotient	<code>tax_adj</code>	J	Quotient*tax_formula
Include solidarity surcharge	<code>sol_surch</code>	J	MIN(tax_adj * surcharge, Positive(tax_adj – surcharge_limit*Quotient) * surcharge_alt)
Tax paid	<code>CG_tax_excl</code>	J	tax_adj+sol_surch
6. Tax credits :	<code>tax_cr</code>	J	0
7. CG tax	<code>CG_tax</code>	J	CG_tax_excl
8. State and local taxes	<code>local_tax</code>	J	0

Line in country table and intermediate steps	Variable name	Range	Equation
9. Employees' soc security	SSC	B	SSC(earn; "employee"; Pension_rate; Pension_ceil; Sick_rate; Sick_ceil; Unemp_rate; Unemp_ceil; Care_rate; Care_ceil; SSC_empr_alt; SSC_floor; SSC_floor1) – see description of function at the bottom of the table
11. Cash transfers	Cash_tran	J	Children*ch_cred
13. Employer's soc security	SSC_empr	B	SSC(earn; "employer"; Pension_rate; Pension_ceil; Sick_rate; Sick_ceil; Unemp_rate; Unemp_ceil; Care_rate; Care_ceil; SSC_empr_alt; SSC_floor; SSC_floor1) – see description of function at the bottom of the table
Memorandum item: non-wastable tax credit			
tax expenditure component	taxexp		tax_cr-transfer
cash transfer component	transfer		-MIN(CG_tax, 0)

Key to range of equation:

B calculated separately for both principal earner and spouse.

P calculated for principal only (value taken as 0 for spouse calculation).

J calculated once only on a joint basis.

Table of Contents

Part I

Basic Methodology and Main Results

1. Basic methodology	12
2. Review of results for 2004	12
3. Results for 2003	23
4. Historical trends	25
<i>Special Feature.</i> Broadening the Definition of the Average Worker	33

Part II

Comparative Tables and Charts

1. Tax Burdens, 2004 (Tables)	44
II.1. Income tax, by family-type and wage level (as % of gross wage), 2004	44
II.2. Employee contributions, by family-type and wage level (as % of gross wage), 2004	45
II.3. Income tax plus employee contributions, by family-type and wage level (as % of gross wage), 2004	46
II.4. Income tax plus employee contributions less cash benefits, by family-type and wage level (as % of gross wage), 2004	47
II.5. Income tax plus employee and employer contributions less cash benefits, by family-type and wage level (as % of labour costs), 2004	48
II.6. Marginal rate of income tax plus employee contributions less cash benefits, by family-type and wage level (as % of gross wage), 2004	49
II.7. Marginal rate of income tax plus employee and employer contributions less cash benefits, by family-type and wage level (as % of labour costs), 2004	50
II.8. Increase in net income after 1% increase in gross wage, by family-type and wage level (%), 2004	51
II.9. Increase in net income after 1% increase in labour costs, by family-type and wage level (%), 2004	52
II.10. Annual gross wage and net income, by family-type and wage level (in US dollars), 2004	53
II.11. Annual labour costs and net income, by family-type and wage level (in US dollars), 2004	55

2. Tax Burdens, 2003 (Tables)	57
II.12. Income tax, by family-type and wage level (as % of gross wage), 2003	57
II.13. Employee contributions, by family-type and wage level (as % of gross wage), 2003	58
II.14. Income tax plus employee contributions, by family-type and wage level (as % of gross wage), 2003	59
II.15. Income tax plus employee contributions less cash benefits, by family-type and wage level (as % of gross wage), 2003	60
II.16. Income tax plus employee and employer contributions, less cash benefits, by family-type and wage level (as % of labour costs), 2003	61
II.17. Marginal rate of income tax plus employee contributions less cash benefits, by family-type and wage level (as % of gross wage), 2003	62
II.18. Marginal rate of income tax plus employee and employer contributions less cash benefits, by family-type and wage level (as % of labour costs), 2003	63
II.19. Increase in net income after 1% increase in gross wage, by family-type and wage level (%), 2003	64
II.20. Increase in net income after 1% increase in labour costs, by family-type and wage level (%), 2003	65
II.21. Annual gross wage and net income, by family-type and wage level (in US dollars), 2003	66
II.22. Annual labour costs and net income, by family-type and wage level (in US dollars), 2003	68
3. Tax Burdens, 2003 (Charts)	70
II.1. Income tax, by family-type (as % of gross wage), 2004	70
II.2. Employee contributions, by family-type (as % of gross wage), 2004	71
II.3. Income tax plus employee contributions less cash benefits, by family-type (as % of gross wage), 2004	72
II.4. Income tax plus employee and employer contributions less cash benefits, by family-type (as % of labour costs), 2004	73
II.5. Marginal rate of income tax plus employee contributions less cash benefits, by family-type (as % of gross wage), 2004	74
II.6. Marginal rate of income tax plus employee and employer contributions less cash benefits, by family-type (as % of labour costs), 2004	75

Part III

Historical Trends, 1979-2004

III.1a. Evolution of the tax burden, 1996-2004. Single persons without children at 67% of average earnings. Income tax as a % of gross earnings	78
III.1b. Evolution of the tax burden, 1996-2004. Single persons without children at 67% of average earnings. Income tax plus employee contributions less cash benefits as a % of gross earnings	79
III.1c. Evolution of the tax burden, 1996-2004. Single persons without children at 67% of average earnings. Income tax plus employee and employer contributions less cash benefits as a % of gross earnings	80

III.2a. Evolution of the tax burden, 1996-2004. Single persons without children at 100% of average earnings. Income tax as a % of gross earnings	81
III.2b. Evolution of the tax burden, 1996-2004. Single persons without children at 100% of average earnings. Income tax plus employee contributions less cash benefits as a % of gross earnings.	82
III.2c. Evolution of the tax burden, 1996-2004. Single persons without children at 100% of average earnings. Income tax plus employee and employer contributions less cash benefits as a % of gross earnings	83
III.3a. Evolution of the tax burden, 1996-2004. Single persons without children at 167% of average earnings. Income tax as a % of gross earnings	84
III.3b. Evolution of the tax burden, 1996-2004. Single persons without children at 167% of average earnings. Income tax plus employee contributions less cash benefits as a % of gross earnings.	85
III.3c. Evolution of the tax burden, 1996-2004. Single persons without children at 167% of average earnings. Income tax plus employee and employer contributions less cash benefits as a % of gross earnings	86
III.4a. Evolution of the tax burden, 1996-2004. Single parent with two children at 67% of average earnings. Income tax as a % of gross earnings	87
III.4b. Evolution of the tax burden, 1996-2004. Single parent with two children at 67% of average earnings. Income tax plus employee contributions less cash benefits as a % of gross earnings.	88
III.4c. Evolution of the tax burden, 1996-2004. Single parent with two children at 67% of average earnings. Income tax plus employee and employer contributions less cash benefits as a % of gross earnings	89
III.5a. Evolution of the tax burden, 1996-2004. One-earner married couple with two children at 100% of average earnings. Income tax as a % of gross earnings	90
III.5b. Evolution of the tax burden, 1996-2004. One-earner married couple with two children at 100% of average earnings. Income tax plus employee contributions less cash benefits as a % of gross earnings	91
III.5c. Evolution of the tax burden, 1996-2004. One-earner married couple with two children at 100% of average earnings. Income tax plus employee and employer contributions less cash benefits as a % of gross earnings.	92
III.6a. Evolution of the tax burden, 1996-2004. Two-earner married couple, one at 100% average earnings and the other at 33%. Income tax as a % of gross earnings	93
III.6b. Evolution of the tax burden, 1996-2004. Two-earner married couple, one at 100% average earnings and the other at 33%. Income tax plus employee contributions less cash benefits as a % of gross earnings	94
III.6c. Evolution of the tax burden, 1996-2004. Two-earner married couple, one at 100% average earnings and the other at 33%. Income tax plus employee and employer contributions less cash benefits as a % of gross earnings.	95
III.7a. Evolution of the tax burden, 1996-2004. Two-earner married couple, one at 100% average earnings and the other at 67%. Income tax as a % of gross earnings	96

III.7b. Evolution of the tax burden, 1996-2004. Two-earner married couple, one at 100% average earnings and the other at 67%. Income tax plus employee contributions less cash benefits as a % of gross earnings	97
III.7c. Evolution of the tax burden, 1996-2004. Two-earner married couple, one at 100% average earnings and the other at 67%. Income tax plus employee and employer contributions less cash benefits as a % of gross earnings.	98
III.8a. Evolution of the tax burden, 1996-2004. Two-earner married couple, one at 100% average earnings and the other at 33%, with no children. Income tax as a % of gross earnings	99
III.8b. Evolution of the tax burden, 1996-2004. Two-earner married couple, one at 100% average earnings and the other at 33%, with no children. Income tax plus employee contributions less cash benefits as a % of gross earnings.	100
III.8c. Evolution of the tax burden, 1996-2004. Two-earner married couple, one at 100% average earnings and the other at 33%, with no children. Income tax plus employee and employer contributions less cash benefits as a % of gross earnings.	101
III.9. Income tax (in % of gross wage), 1979-2004, single persons without children . . .	102
III.10. Income tax plus employee contributions (in % of gross wage), 1979-2004, single persons without children.	103
III.11. Income tax plus employee and employer contributions (as % of labour costs), 1979-2004, single persons without children	104
III.12. Income tax (as % of gross wage), 1979-2004, one-earner family with two children	105
III.13. Income tax plus employee contributions less cash benefits (as % of gross wage), 1979-2004, one-earner family with two children	106
III.14. Income tax plus employee and employer contributions less cash benefits (as % of labour costs), 1979-2004, one-earner family with two children	107

Part IV

Country Details, 2004

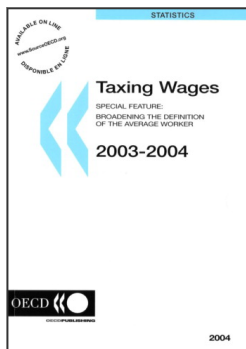
Australia (2004-2005 Income Tax Year)	111
Austria	125
Belgium (French only)	137
Canada	147
Czech Republic	163
Denmark	173
Finland	183
France (French only)	191
Germany	205
Greece	215
Hungary	225
Iceland	235
Ireland	245
Italy	255

Japan	267
Korea	279
Luxembourg (French only)	289
Mexico	299
Netherlands	309
New Zealand (2004-2005 Income Tax Year)	321
Norway	329
Poland	339
Portugal (French only)	349
Slovak Republic	361
Spain	371
Sweden	381
Switzerland (French only)	391
Turkey	405
United Kingdom (2004-2005 Income Tax Year)	413
United States	421

Part V

Methodology and Limitations

Methodology	433
1. Introduction	434
2. Calculation of gross wage earnings	434
3. Estimating gross wage earnings in 2004	439
4. Coverage of taxes and benefits	440
5. Taxpayer characteristics	441
6. Calculation of personal income taxes	442
7. State and local income taxes	443
8. Social security contributions	448
9. Payroll taxes	448
10. Church tax	449
11. Family cash benefits from general government	449
12. Non-wastable tax credits	450
Limitations	453
1. General limitations	454
2. Some specific limitations on the income tax calculation	454
3. Limitations to time-series comparisons	455
4. Limitations to marginal rates	456
A Note on the Tax Equations	459
Annex A. Overall Tax Levels and Tax Structures in OECD Member Countries, 1990-2002	463
Annex B. Source of Earnings Data	466
Annex C. Exchange Rates and Purchasing Power Parities of National Currencies, 2004	467



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